

## 11th Annual Public Private Partnership Conference



# Communicating Financial Statements Metrics and Red Flags

**Presented by**  
**Anna Hofmeister, CPA, Tate & Tryon**  
**J. Scott Denlinger, CPA, CBIZ MHM**

**August 25, 2011**

# Agenda

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Needs of Boards

Needs of Management

KPIs

Reserves

Potential Obstacles

Reporting

Data Visualization

Implementation

Don't hesitate to ask questions!

# Needs of Boards

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- Diversity of background and expertise makes board reporting complicated
- Boards see numbers and dollars through different lens
- Focus more on how organization is performing in strategic areas rather than operational areas
- Volunteer leadership have day jobs; time is precious and must be respected
- Benchmarking

# Needs of Management

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- Focus mostly on operational goals that feed into strategic goals
- Specific areas vs. global
- Diversity of background and expertise
- Timely is key
- Listen to them

# Key Performance Indicators (KPIs)

- Mission-driven
  - > What are we supposed to be doing?
- Tied to strategic plan
  - > Strategic initiatives determine KPIs
- Measurable
  - > Original goals compared to current reality

# KPIs *continued*

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- Operationally relevant
- Financial and/or non-financial
  - > Registrations
  - > Actual member numbers, renewal/retention rate
  - > Giving patterns, duration of pledges, percentage collected
  - > A/R collections
- Organizations are different
  - > Needs and culture affects how people look at financial reports

# Information Reporting to Meet These Needs

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- Dashboard
- Narrative
- Financial statements

# Classic Reporting

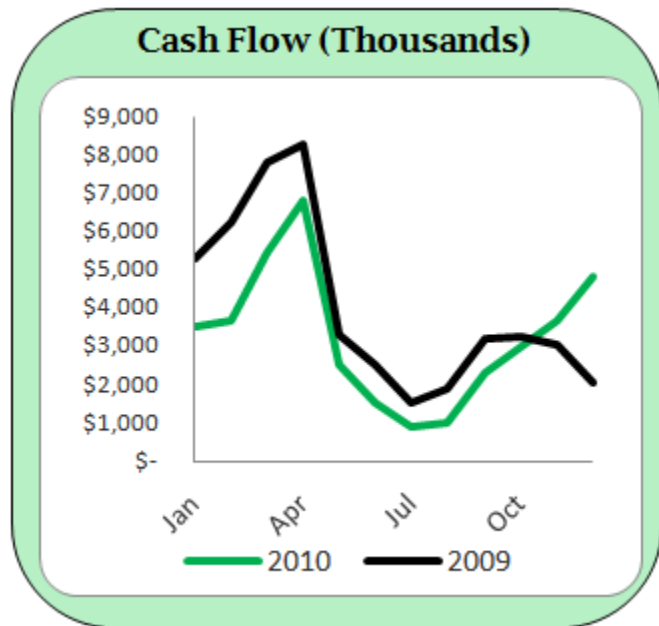
Good information – can we learn more?

|                       | 2010         | 2009         |
|-----------------------|--------------|--------------|
| <b>ASSETS</b>         |              |              |
| <b>CURRENT ASSETS</b> |              |              |
| Cash                  | \$ 4,847,203 | \$ 2,082,306 |
| Investments           | 8,681,362    | 7,114,572    |
| Accounts Receivable   | 1,320,870    | 1,415,673    |
| Grants Receivable     | 4,160,595    | 6,894,744    |
| Prepaid Expenses      | 1,165,914    | 784,239      |
| Due From Foundation   | 130,588      | 164,422      |
| Publication Inventory | 287,778      | 297,696      |

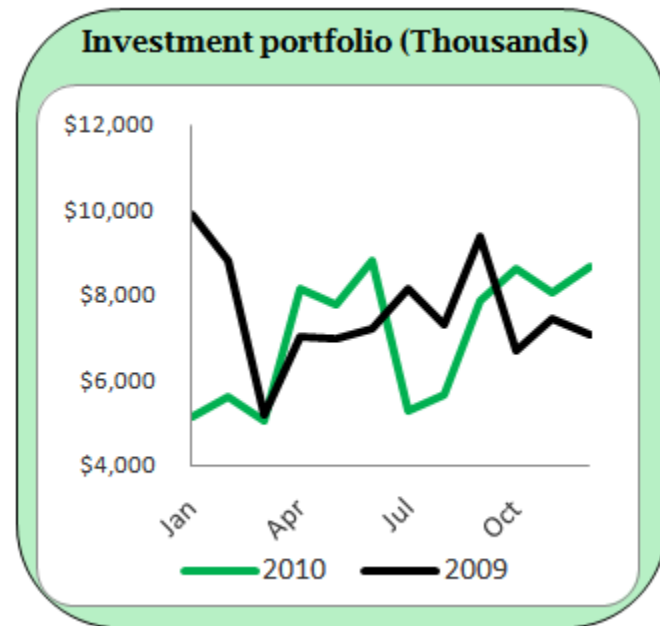


# Dashboard Alternative

Cash balances drop in May –  
good to know for planning



Balances are influenced by market  
forces, but also by withdrawals



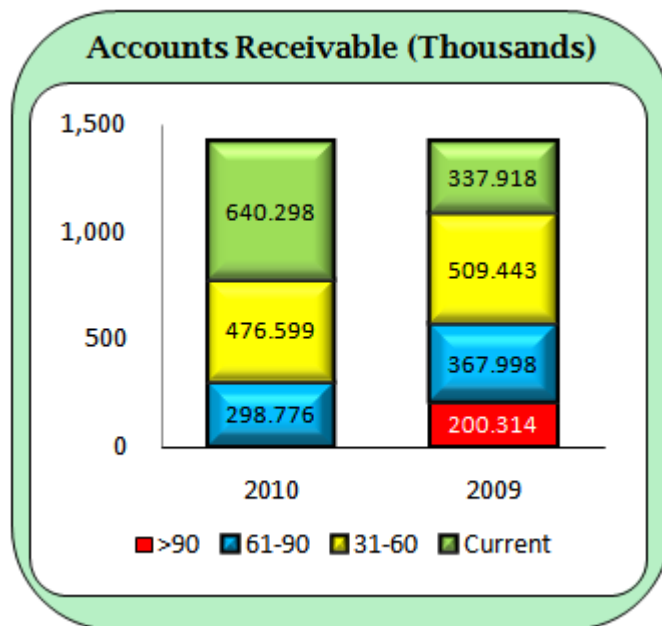
# Classic Reporting

Good information – can we learn more?

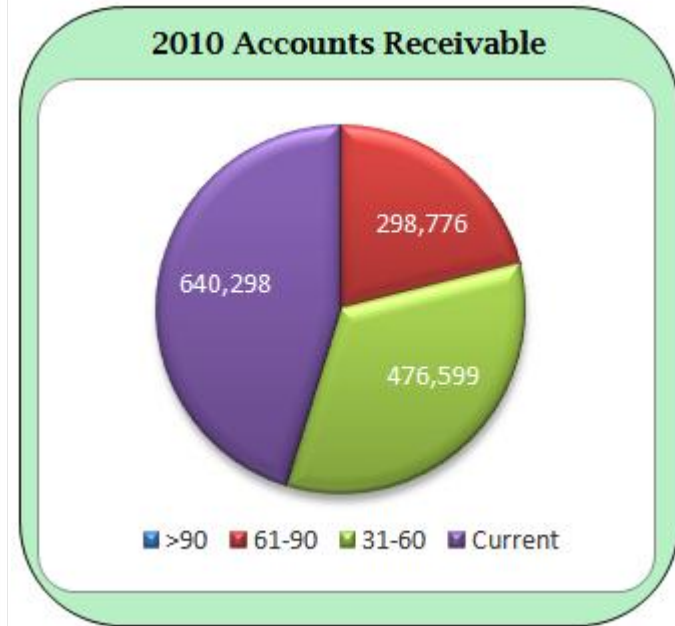
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# Dashboard Alternative

## Year-to-year comparison



## Current year composition



# Classic Reporting

What do we need to know about our liabilities?

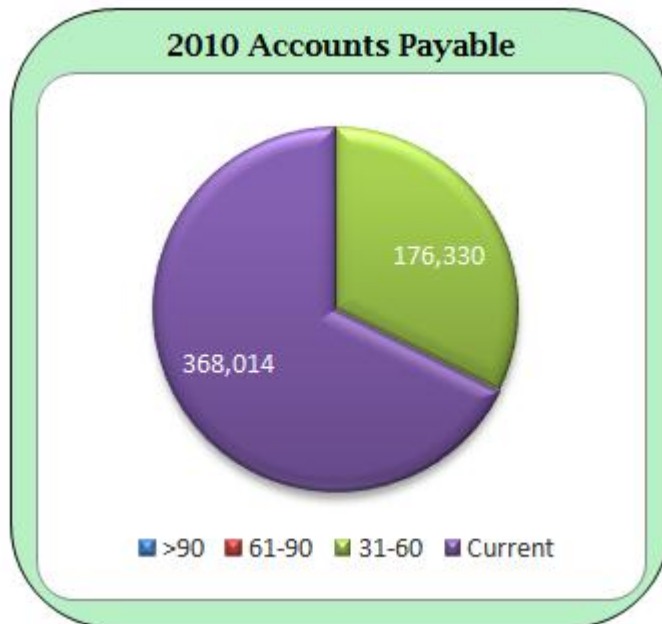
## LIABILITIES & NET ASSETS

### CURRENT LIABILITIES

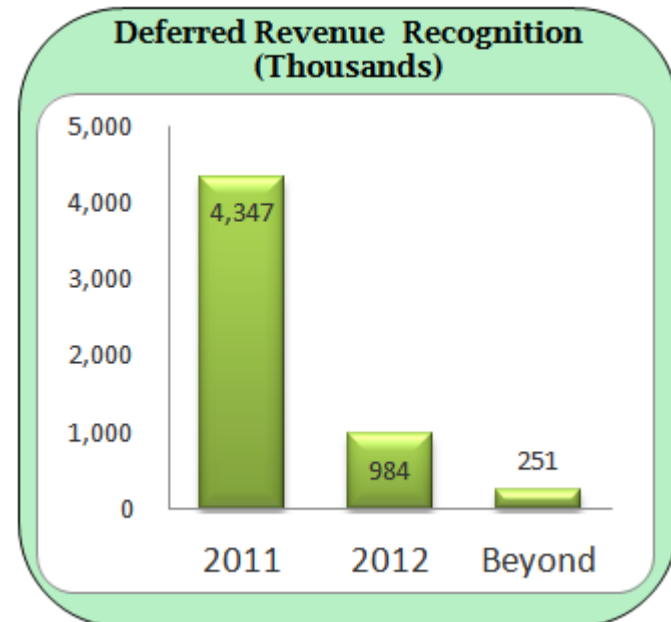
|                                    |                |                |
|------------------------------------|----------------|----------------|
| Accounts Payable                   | \$ 544,344     | \$ 486,483     |
| Accrued Expenses                   | 514,068        | 446,040        |
| Deferred Income-Individual         | 695,553        | 513,378        |
| Deferred Income-Program            | 3,873,567      | 2,914,791      |
| Deferred Income-Accreditation Fees | 1,012,404      | 1,238,535      |
| Note Payable - short term portion  | <u>313,701</u> | <u>301,356</u> |

# Dashboard Alternative

How old are the payables?



When will the revenue be recognized?



# Ratios

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## Current Ratio:

Shows organization's ability to meet short-term obligations.

Current Assets

Current Liabilities

- Your current ratio helps you determine if you have enough working capital to meet your short-term financial obligations.
- A general rule of thumb is to have a current ratio of at least 1.0.
- A current ratio under two may indicate an inability to pay current financial obligations with a measure of safety.

# Ratios

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## Quick Ratio:

More stringent test of your ability to meet current obligations. Used by banks and management. Should not be less than 1.0.

Quick Assets\*

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Current Liabilities

\*Quick Assets generally means Current Assets minus Inventory and Prepaid Expenses.

# Ratios

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## Industry Benchmarks

|               | <u>Public<br/>Charities</u> | <u>Trade<br/>Associations</u> |
|---------------|-----------------------------|-------------------------------|
| Quick Ratio   | 1.42                        | 1.27                          |
| Current Ratio | 2.97                        | 2.36                          |



# Ratios

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## Sample Ratio

|                           |              |   |      |
|---------------------------|--------------|---|------|
| TOTAL CURRENT ASSETS      | \$ 1,004,668 |   |      |
|                           | <hr/>        | = | 1.37 |
| TOTAL CURRENT LIABILITIES | \$ 735,797   |   |      |

# Ratios

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## Sample Ratio

|                           |                   |   |      |
|---------------------------|-------------------|---|------|
| TOTAL CURRENT ASSETS      | \$ 1,004,668      |   |      |
| LESS: Prepaid expenses    | <u>59,379</u>     |   |      |
| TOTAL QUICK ASSETS        | <u>\$ 945,289</u> | = | 1.28 |
| TOTAL CURRENT LIABILITIES | \$ 735,797        |   |      |

# Building Reserves

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- What types of reserves (emergency, expansion, equipment, etc.)
- Time frame for building up reserves

# Operating Reserves

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- How do you calculate operating reserves?
- What is an appropriate level of operating reserves?
- Building and maintaining an appropriate level of operating reserves

# Operating Reserves

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## How to Calculate

- $\text{Unrestricted net assets} - \text{Fixed assets} = \text{Operating reserve}$
- $\text{Total expenses} - \text{Depreciation} = \text{Operating expenses}$
- $\text{Operating reserve} \div \text{operating expenses}$

# Operating Reserves

## Calculation Example

|                            |              |   |     |
|----------------------------|--------------|---|-----|
| Unrestricted net assets    | \$ 997,049   |   |     |
| Less: Fixed assets         | 15,293       |   |     |
| Operating reserve          | \$ 981,756   |   |     |
|                            |              |   |     |
| Total expenses             | \$ 3,958,045 |   |     |
| Less: Depreciation expense | 5,144        |   |     |
| Operating expenses         | \$ 3,952,901 |   |     |
|                            |              |   |     |
| Operating reserve          | \$ 981,756   |   |     |
|                            |              | = | 25% |
| Operating expenses         | \$ 3,952,901 |   |     |

This means 25% (or 3 months) of their annual expenses

# Operating Reserves

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## What Is An Appropriate Level?

- Minimum of 25%, or 3 months, of operating expenses
- Other factors to consider:
  - > Type of organization
  - > Types and diversity of revenue streams
  - > Peaks and valleys in expenses
  - > How susceptible the organization is to economic downturns
  - > Large outlays of cash projected in future?

# Potential Obstacles

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- Donors
- Staff
- Board
- Desire to fulfill mission

(Importance of Communication!)



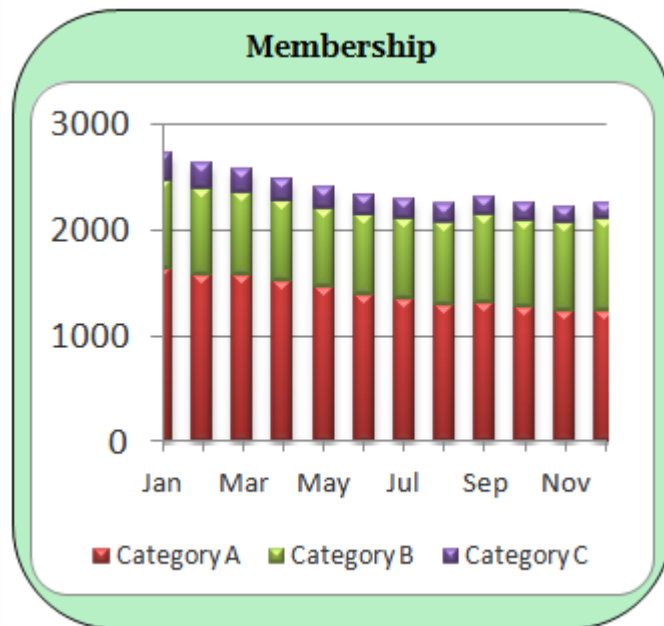
# Classic Reporting

Membership is down, but why?

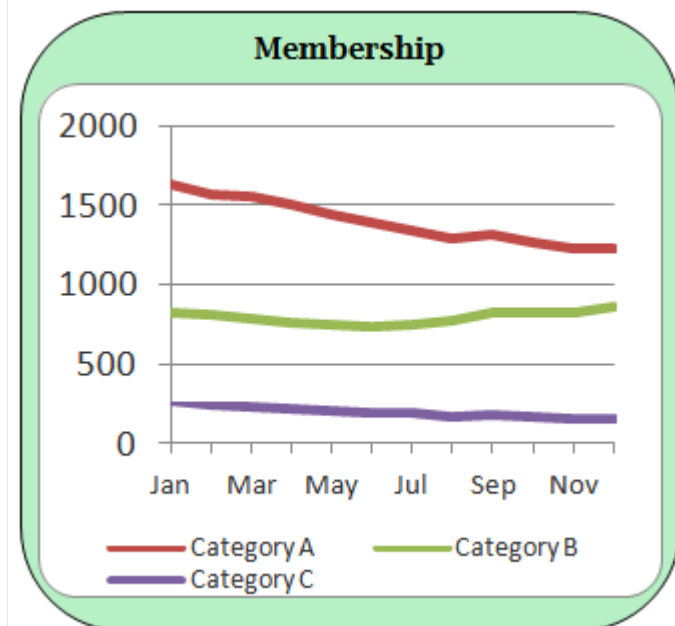
|                 | 2010<br>YTD Actual | 2009<br>YTD Actual | Annual<br>Budget |
|-----------------|--------------------|--------------------|------------------|
| REVENUE:        |                    |                    |                  |
| Contributions   | \$ 3,680,748       | \$ 5,063,205       | \$ 3,750,000     |
| Grants          | 559,920            | 1,074,639          | 510,000          |
| Membership Dues | 1,701,891          | 1,948,802          | 1,854,727        |
| Program Dues    | 7,084,414          | 7,034,067          | 6,680,000        |
| Accreditations  | 61,017             | 160,521            | 204,945          |
| Registrations   | 2,342,544          | 2,566,305          | 2,145,000        |
| Sponsorships    | 47,250             | 130,050            | 40,500           |
| Exhibits        | 274,350            | 241,995            | 405,000          |

# Dashboard Alternative

Stacked bar chart – helps to get a sense of the total volume



Line chart – easy to see trends for each category



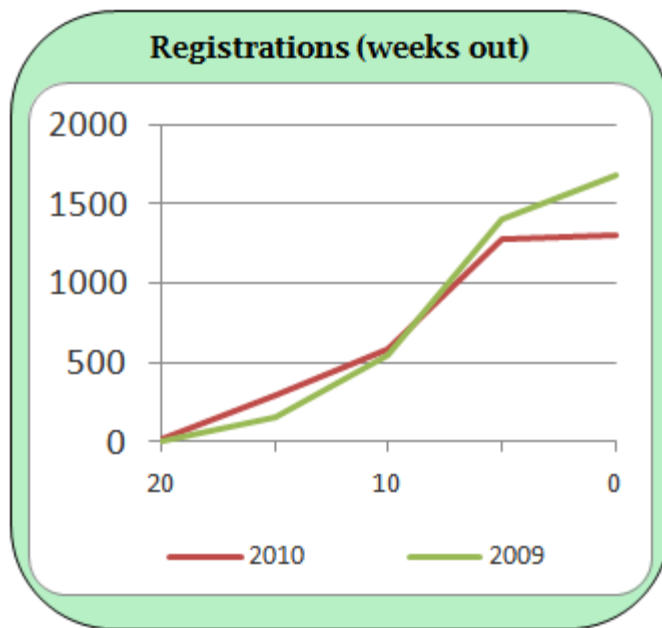
# Classic Reporting

Why are event registrations lower?

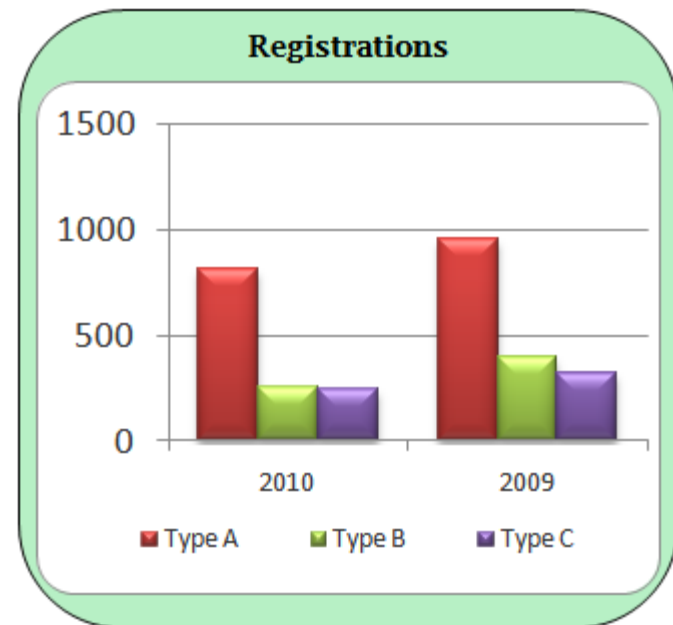
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|----------------------|--------------------|--------------------|------------------|
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| Sponsorships         | 47,250             | 130,050            | 40,500           |
| Exhibits             | 274,350            | 241,995            | 405,000          |
| Publications         | 528,435            | 628,227            | 676,500          |
| Royalties            | 34,653             | 47,892             | 76,200           |
| Administrative       | 947,748            | 1,008,711          | 977,049          |
| Advertising          | 255,273            | 323,466            | 344,400          |

# Dashboard Alternative

Total registrations by weeks out  
– what happened at the end?



Registrations by category –  
looks like all categories were  
affected.



# Ratios

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## Operating Efficiency:

Indicates percentage of each dollar spent on programs.

Program related expenses

Total expenses

**AIP  
Benchmark**

75%

# Ratios

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## Fundraising Efficiency:

A measure of the cost of raising money.

Fundraising expenses

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Related contributions

**AIP**  
**Benchmark**

25% (ideally)  
(no more than 35%)

# Sample Ratio

## Operating Efficiency

|                        |              |
|------------------------|--------------|
| Program services       | \$ 2,943,333 |
| Management and general | 602,073      |
| Fundraising            | 412,639      |

|                |                     |
|----------------|---------------------|
| Total Expenses | <u>\$ 3,958,045</u> |
|----------------|---------------------|

|                  |                     |
|------------------|---------------------|
| Program services | <u>\$ 2,943,333</u> |
|------------------|---------------------|

|                |              |
|----------------|--------------|
| Total Expenses | \$ 3,958,045 |
|----------------|--------------|

= 74%

# Sample Ratio

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## Fundraising Efficiency

|                          |              |   |     |
|--------------------------|--------------|---|-----|
| Fundraising expenses     | \$ 412,639   |   |     |
|                          | <hr/>        | = | 25% |
| Grants and contributions | \$ 1,650,445 |   |     |



# Cash Budgets & Projections

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Use operating budget as a starting point:

- Convert accrual basis items to cash basis
- Back out noncash expense (depreciation and amortization)
- Add in non-expense outlays, such as loan repayments or equipment purchases
- Add in line items for additions to operating or other reserves

# XYX Organization

## Cash Flow Budget Worksheet

Year ending December 31, 20XX

### Adjustments

#### SUPPORT AND REVENUE

|                                  |                  |               |   |
|----------------------------------|------------------|---------------|---|
| Contributions                    | \$ 1,404,125     | \$ 36,000     | a |
| Interest and dividend income     | 52,525           | 2,932         | a |
| <b>TOTAL SUPPORT AND REVENUE</b> | <u>1,456,650</u> | <u>38,932</u> |   |

#### CASH INFLOWS

|                              |                  |
|------------------------------|------------------|
| Contributions                | \$ 1,440,125     |
| Interest and dividend income | 55,457           |
| <b>TOTAL CASH INFLOWS</b>    | <u>1,495,582</u> |

#### EXPENSES

|                         |                  |                |   |
|-------------------------|------------------|----------------|---|
| Administrative fees     | 7,200            |                |   |
| Board expenses          | 1,050            |                |   |
| Cleaning                | 26,706           |                |   |
| Commission - rentals    | 4,752            | (4,752)        | a |
| Depreciation            | 80,436           | (80,436)       | b |
| Insurance               | 9,023            | 2,904          | a |
| Miscellaneous expenses  | 173              | (4)            | a |
| Office expense          | 1,300            |                |   |
| Personnel expenses      | 1,005,455        |                |   |
| Property taxes          | 97,250           |                |   |
|                         |                  | 150,000        | c |
|                         |                  | 28,477         | c |
|                         |                  | 39,618         | c |
| Repairs and maintenance | 32,042           | 3,934          | a |
| Security                | 2,701            |                |   |
| Trash and hauling       | 4,683            |                |   |
| Travel                  | 551              |                |   |
| Utilities               | 51,503           |                |   |
| <b>TOTAL EXPENSES</b>   | <u>1,324,825</u> | <u>139,741</u> |   |

#### CASH OUTFLOWS

|                                     |                  |
|-------------------------------------|------------------|
| Administrative fees                 | 7,200            |
| Board expenses                      | 1,050            |
| Cleaning                            | 26,706           |
| Commission - rentals                | -                |
| Depreciation                        | -                |
| Insurance                           | 11,927           |
| Miscellaneous expenses              | 169              |
| Office expense                      | 1,300            |
| Personnel expenses                  | 1,005,455        |
| Property taxes                      | 97,250           |
| Transfer to reserve                 | 150,000          |
| Purchases of property and equipment | 28,477           |
| Repayment of notes payable          | 39,618           |
| Repairs and maintenance             | 35,976           |
| Security                            | 2,701            |
| Trash and hauling                   | 4,683            |
| Travel                              | 551              |
| Utilities                           | 51,503           |
| <b>TOTAL CASH OUTFLOWS</b>          | <u>1,464,566</u> |

**CHANGE IN NET ASSETS** 131,825

**NET CASH FLOWS** \$ 31,016

- a** Adjustments to reverse out accruals
- b** Elimination of non-cash expenses
- c** Inclusion of cash outflows not recognized as expenses

# **XYX Organization**

## **Quarterly Cash Flow Budget Worksheet**

**Year ending December 31, 20XX**

|                                     | <u><b>1st Qtr</b></u> | <u><b>2nd Qtr</b></u> | <u><b>3rd Qtr</b></u> | <u><b>4th Qtr</b></u> | <u><b>Total</b></u> |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| BEGINNING CASH                      | \$ 150,469            | \$ 117,249            | \$ 189                | \$ 365,117            | \$ 150,469          |
| <b>CASH INFLOWS</b>                 |                       |                       |                       |                       |                     |
| Contributions                       | 250,125               | 166,286               | 774,000               | 249,714               | 1,440,125           |
| Interest and dividend income        | 13,864                | 13,864                | 13,864                | 13,864                | 55,457              |
| <b>TOTAL CASH INFLOWS</b>           | <u>263,989</u>        | <u>180,150</u>        | <u>787,864</u>        | <u>263,578</u>        | <u>1,495,582</u>    |
| <b>CASH OUTFLOWS</b>                |                       |                       |                       |                       |                     |
| Administrative fees                 | 1,800                 | 1,800                 | 1,800                 | 1,800                 | 7,200               |
| Board expenses                      | 263                   | 263                   | 263                   | 263                   | 1,050               |
| Cleaning                            | 6,677                 | 6,677                 | 6,677                 | 6,677                 | 26,706              |
| Insurance                           | 2,982                 | 2,982                 | 2,982                 | 2,982                 | 11,927              |
| Miscellaneous expenses              | 42                    | 42                    | 42                    | 42                    | 169                 |
| Office expense                      | 325                   | 325                   | 325                   | 325                   | 1,300               |
| Personnel expenses                  | 251,364               | 251,364               | 251,364               | 251,364               | 1,005,455           |
| Property taxes                      | -                     | -                     | 97,250                | -                     | 97,250              |
| Transfer to reserve                 | -                     | -                     | -                     | 150,000               | 150,000             |
| Purchases of property and equipment | -                     | -                     | 28,477                | -                     | 28,477              |
| Repayment of notes payable          | 9,905                 | 9,905                 | 9,905                 | 9,905                 | 39,618              |
| Repairs and maintenance             | 8,994                 | 8,994                 | 8,994                 | 8,994                 | 35,976              |
| Security                            | 675                   | 675                   | 675                   | 675                   | 2,701               |
| Trash and hauling                   | 1,171                 | 1,171                 | 1,171                 | 1,171                 | 4,683               |
| Travel                              | 138                   | 138                   | 138                   | 138                   | 551                 |
| Utilities                           | 12,876                | 12,876                | 12,876                | 12,876                | 51,503              |
| <b>TOTAL CASH OUTFLOWS</b>          | <u>297,210</u>        | <u>297,210</u>        | <u>422,937</u>        | <u>447,210</u>        | <u>1,464,566</u>    |
| <b>NET CASH FLOWS</b>               | <u>(33,221)</u>       | <u>(117,060)</u>      | <u>364,928</u>        | <u>(183,632)</u>      | <u>31,016</u>       |
| ENDING CASH                         | <u>\$ 117,249</u>     | <u>\$ 189</u>         | <u>\$ 365,117</u>     | <u>\$ 181,485</u>     | <u>\$ 181,485</u>   |

# Breakeven Cash Flow

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## Monthly fixed costs:

- > Rent & utilities
- > Payroll & benefits
- > Loan/equipment lease payments
- > Other monthly costs

Breakeven cash flow refers to the nondiscretionary costs that you must cover each month – it is the amount of cash you must have on hand (not revenue on the books)

# Data Visualization Applications

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- Microsoft Excel

- > 2007 and 2010 versions have better charting capability
- > You already have it on your computers; no additional purchase necessary
- > Data are not automatically refreshed; no real-time reporting capability
- > Can be labor-intensive to set up

# Data Visualization Applications

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- NetCharts performance dashboards
- Tableau
- Dundas
- Xcelcius
- QlikView

# Data Visualization Applications

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- Web-based
- Real-time connectivity/automatic refresh
- Connectivity to diverse databases
- Ease of use/comfortable interface
- Technical knowledge required?
- Customizable views/charting

# Implementation Suggestions

- Less is more
- Work with readily available data
- Assess the reader's readiness
- Carefully choose what you present



# Questions



**J. Scott Denlinger, CPA**, is the Director in charge of the CBIZ MHM Outsourced Services practice and has more than 20 years experience in accounting, tax and auditing.

Mr. Denlinger designs and manages outsourced CFO and accounting engagements serving both for-profit and nonprofit organizations. He also performs CFO duties for several organizations, assisting in the preparation of internal financial statements and presentation to their Boards. With his extensive auditing experience, Mr. Denlinger is able to assist our outsourcing clients in preparing for their year-end audits. Combining his communication skills and ability to translate difficult accounting concepts into laymen's terms, as well as his penchant for teaching, Mr. Denlinger is frequently asked to lead seminars and workshops by various organizations on a broad range of financial management and reporting topics. He is a member of the MACPA Government and Nonprofit Conference Committee and serves on the Board of Family and Children Services of Central Maryland.

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**Anna M. Hofmeister, CPA**, is the partner in charge of Tate & Tryon's Outsourcing Services practice and has more than 20 years of experience serving nonprofit organizations.

In her role as an interim or permanent CFO, Ms. Hofmeister frequently presents to finance committees and boards of directors on topics such as financial results; key performance indicators; cash flow projections; budgets and financial projections; streamlining business operations; internal control design and documentation; aligning chart of accounts & financial statements to conform with strategic objectives; cost allocations; and federal and private grant accounting requirements. Anna is a frequent speaker on nonprofit accounting and financial management topics and has presented at ASAE's Finance, HR, and Business Operations Conference and the GWSCPA Not for Profit Organization Symposium. She has also written several articles published in ASAE's Dollars & Cents newsletter including "Core Competencies of a Finance and Business Operations Professional" and "Mastering Functional Expense Allocations."

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